

**From Naval Air Warfare Center, Aircraft
Division, Indianapolis to Raytheon
Technical Services Company**

Anatomy of a Successful Privatization

J.W. (Jim) Wheeler & Michael Sargent

Andersen LLP

Suite 4300

111 Monument Circle

Indianapolis, IN 46204-5143

From Naval Air Warfare Center, Aircraft Division, Indianapolis to Raytheon Technical Services Company: Anatomy of a Successful Privatization

The Navy/Department of Defense (DoD) included the Naval Air Warfare Center-Aircraft Division, Indianapolis (NAWC-ADI) in the 1995 base realignment and closure round. Rather than contest the closure, the City of Indianapolis proposed a creative, alternative implementation of the closure decision: privatization in place. The Base Closure and Realignment Commission (BCRC) recommendation allowed the Navy the choice to privatize the workload in place, or relocate as appropriate to other Navy facilities. Based upon the BRAC recommendation, the Navy and the City agreed to explore the feasibility of privatization in place and develop options for meeting Navy and City interests through privatization.

Fortified with a deep commitment to success by all parties, the City and the Navy forged cooperative teams under the leadership of the Joint Privatization Steering Group (JPSG). These teams based their negotiations on solid staff work and dedication to understanding and dealing effectively with issues. Progress was facilitated by strong leadership that provided the constancy to demand success and the willingness to deal personally with those challenges that could not be resolved at the staff level. The entire effort has been a unique cooperative process.

After examination of a number of alternative privatization approaches, the City and the Navy focused on an approach they felt had the potential to meet the objectives of all the major stakeholders. Since the City is ultimately the entity most affected by the reuse plan, they sought to create a major employment center by turning the site over to a viable commercial entity. Based on the City's demonstration of an understanding of the Navy's needs, the Navy determined it was in the best interest of both parties for the City to conduct a competitive selection process to identify a contractor capable of managing the NAWC Indianapolis site. The Navy notified Congress based upon a determination and finding by SECNAV that it was in the public interest to award a contract to the firm selected by the City. The City was able to apply commercial practices to the selection process and complete the selection faster than a normal DoD procurement of this magnitude.

After an intense free and open competition, Hughes Technical Services Company (now Raytheon Technical Services Company), a subsidiary of Hughes Electronics Corporation, was selected by the City of Indianapolis as the corporate partner in the NAWC Indianapolis privatization effort. Raytheon has been enthusiastic in joining the effort to create an unprecedented public/private business relationship that will continue to provide easy access to the Indianapolis work force, and maintain the responsiveness that has made NAWC-ADI a valued supplier of choice to Navy program managers.

Analysis found that privatization had strong potential to reduce infrastructure and costs, minimize disruption to Navy programs, and preserve the integrated capabilities of the

existing facilities and the highly-trained workforce. One time move costs associated with closure are drastically reduced. The IDIQ contract negotiated with Hughes includes firm fixed price, time and materials, and fixed price level of effort type tasks. The fixed price, level of effort type contract results in 5 year fixed rates and reduces risk of cost escalation inherent in a traditional closure plan. The forces of the marketplace provide further incentives to control costs. Creation of ~2000 meaningful employment opportunities for NAWC-ADI employees in the private sector, while simultaneously reducing Government payroll was key to the projected success of the plan. Additionally, the Navy expects continuing benefits from the industry/academia partnership that is part of the city deal with Raytheon.

Since speed was critical to the privatization objective, each step in the process was viewed as potentially adaptable or even dispensable. The teams modified schedules ruthlessly, setting priorities to deal with only those issues that were absolutely critical to the next key decision point. Consistent with acquisition reform principles, the Navy, the City, and Raytheon used an Alpha Acquisition approach to negotiate a lease and contract within an unprecedented timeframe.

Successful privatization of NAWC-ADI could not have been realized without significant independent authority within the teams to make decisions and cut deals. Nor would it have been possible without the close personal attention of the key leaders, and their willingness to weigh in as needed to support the effort. What is perhaps most notable is the process by which all of the key stakeholders worked together to surface issues and create innovative, mutually acceptable solutions.

Is this privatization a model for future downsizing or a unique case that cannot be replicated? The correct answer is a bit of both. Key to the potential for successful privatization was the diversified skills of NAWC-ADI's technical workforce, its strong customer base and attendant workload. There are some technical activities that potentially could readily adapt the approach used in Indianapolis to move toward privatization. Other sites, such as large depots or T&E operations would find a wholesale adoption of the Indianapolis approach inappropriate. However, there are significant lessons and precedents that could help in any major restructuring effort, ranging from the teaming approach, to managing of ethics concerns, to the procedures adopted to speed up every process, to some of the specific interim lease and contract terms negotiated.

Perhaps the top ten lessons learned can be summarized as follows:

1. Pick a good privatization candidate and make sure there is an opportunity for long term, economic viability by doing an independent market/business plan. The key is to do a realistic, balanced assessment to see if a particular privatization makes good business sense.
2. Support of top Navy leadership and Congress was essential to achieving Indianapolis privatization. Without visible SYSCOM, ASN, SECNAV, and Congressional level involvement and advocacy, it would have been very unlikely we could have successfully aligned activities and resources.

3. Involving primary and secondary stakeholders in forums that fostered communication enabled the players to collectively understand and deal with issues. For example, the Joint Privatization Steering Group brought together the City, the Navy, and OEA in a working group forum that enabled quick, effective decision making and built trust and commitment. This was especially important in the early stages, because it build a solid foundation for future action in uncharted waters. Another import aspect was involving customers to understand their concerns and to achieve their participation in development of the privatization concept of operations.
4. Speed was critical to creating and maintaining employee, customer and industry confidence. It was equally important that the leadership (VADM Lockard and Mayor Goldsmith) established an aggressive schedule.
5. Thinking outside the box. The Team was empowered by VADM Lockard and Mayor Goldsmith to evaluate all alternative approaches and presume that we could remove any potential roadblocks. We balanced rational thinking with viewing the world with a paradigm shift. The teams also had to work to ensure that the solutions were doable in the real world. Moreover, creativity was as important to the implementing stages as it was to the formative stages. Don't lock in answers or approaches too early!
6. Taking risks. The momentum we created was necessary, but would have been hard to turn off if the cost benefit analysis didn't look favorable. On the other hand, so many stakeholders were personally and professionally committed, that the momentum helped create success in the long run. For example, we planned the lease/contract ceremony before completed contract negotiations in the face of some hard differences. Invitations were issues to the President of Hughes, the Secretary of the Navy, the Governor, Senators and Representatives – a full-scale commitment that solutions would be found. The negotiators worked through differences and signed the contract only a few days before the scheduled signing ceremony. Someone once said that a firm deadline is a powerful motivation. This sort of risk taking, based on the assumption of success, was typical throughout the project.
7. Strong contracting and procurement experience and savvy are a must. We employed the Alpha Acquisition approach (work together as a team) to both the contract and lease negotiations. Be aware, however, the contract is only the beginning. There is still a mountain of work ahead in the processing of delivery orders for a hot turnover. This proved to be a massive task involving many players. The schedule allowed only 1 1/2 months, when the real time requirements should have been 3 or 4 months.
8. It was important to understand and effectively deal with real and perceived ethics considerations. Involve ethics counselors early and keep the employees appraised of their rights and limitations.
9. Make Navy interests and requirements known and let the Community leaders in the base closure process do the selection. Since the City is ultimately the entity most affected by the closure of the site, it has the greatest incentive to create a success. Here the City wanted to create a major employment center serving the greater Indianapolis community by turning the site over to a viable commercial entity. Based on the City's demonstration of an understanding the of the Navy's needs and national leadership qualifications in

privatization of public services, the Navy determined it was in the best interest of both parties for the City to conduct a competitive selection process to identify a contractor capable of managing the NAWC Indianapolis site. An added benefit was that the City was able to apply commercial practices to the selection process and complete the selection faster than a normal DoD procurement of this magnitude.

10. Cost benefit analysis - Having a cost benefit analysis performed by an independent cost group is a must. The independent study will provide instant credibility with external groups. It is important that the cost group have unlimited access to all potential affected parties and adequate time to perform a thorough analysis.

11. Luck - This also was an essential ingredient to our success. We were in the right place at the right time, had the support of both political parties, and none of the stakeholders had a hidden agenda.